

Finance and Resources Committee

10am, Thursday, 10 October 2019

Council Change Strategy: Planning for Change and Delivering Services 2019-23

Executive/routine
Wards
Council Commitments

1. Recommendations

- 1.1 Members of the Finance and Resources Committee are asked to:
- 1.1.1 Endorse the adoption of addressing poverty and sustainability as the policy priorities which will provide a focus for development of the Council's budget for 2020-23;
 - 1.1.2 Note the outcome of the medium-term review of the income and expenditure assumptions over the next three years and the consequent need to identify and deliver additional savings of at least £36m in 2020/21 and £87m by 2022/23, as well as those approved as part of previous years' budgets;
 - 1.1.3 Note that a further report will be presented to the Committee in January setting out the implications for the Council of the provisional Local Government Finance Settlement over the period of the budget framework; and
 - 1.1.4 Agree that the Council utilises current engagement material and the IIA process to inform its budget decisions and looks for further citizen feedback on those specific proposals which are new or have not been publicly discussed in previous years.

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Council Change Strategy: Planning for Change and Delivering Services 2019-23

2. Executive Summary

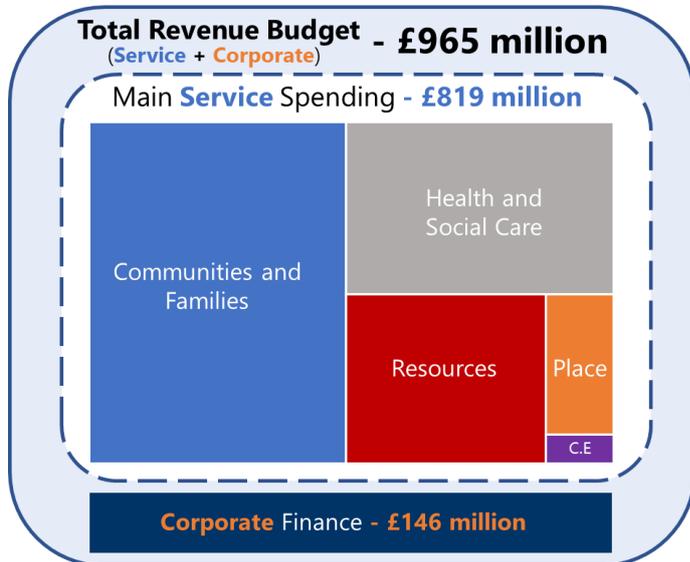
- 2.1 This report updates the Committee on progress in developing the evolving four-year change strategy with specific discussion on the budget-setting approach for 2020/21.
- 2.2 Set out in the report are the indicative consequences from UK Government announcements in September 2019 which are subject to ongoing political and financial uncertainty associated with a potential general election, Brexit and one-year spending review.
- 2.3 The report advises members of the outcome of a review of the principal expenditure and income assumptions and other relevant factors contained within the budget framework over the period to 2022/23.
- 2.4 The report also details the intention to set a policy-based budget through the lenses of poverty and sustainability with key messages for this year's budget approach linked to these important issues.
- 2.5 Initial engagement feedback is described within the report with a full report to follow at the Finance and Resources Committee in December. The Committee is asked to consider its approach to further budgetary consultation/engagement given the financial and political uncertainty and the challenging timelines expected for budget decisions to be taken.

3. Background

- 3.1 On 1 February 2019, members of the Finance and Resources Committee approved the publication of the Council's Change Strategy which sets out a programme of change, agreeing that it would be an evolving document. The strategy set out an ambitious direction of travel with three key objectives, these are:
 - driving improvements to deliver the high-quality services that our citizens expect and deserve;
 - targeting investment on prevention and early intervention to reduce long-term reliance on our services and allow citizens to lead active, independent lives; and
 - growing the city in a way that is sustainable and inclusive.

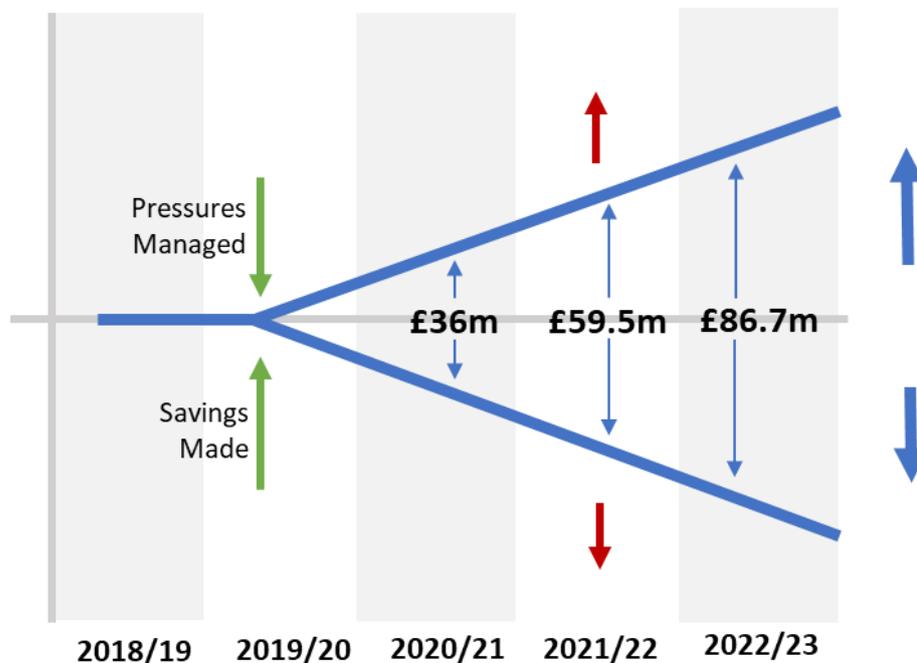
3.2 This year sees the continuation of the work required to build the strategy and looks to refine the three key objectives set out above into an outcome-based approach to budgeting which prioritises poverty, sustainability and well-being outcomes. This prioritisation reflects statutory and political targets that impact the Council.

3.3 A breakdown of the overall Council net budget in 2019/20 is illustrated within the diagram below:



- the main service spend is £819m and is divided among five areas of the Council.
- The decisions on how much is allocated to each area are within the Council's control.
- The Health and Social Care budget is agreed by the Edinburgh Integration Joint Board.

3.4 The chart below illustrates the residual incremental gap based on updated assumptions this year for the remaining three-year period. The sums shown are expressed net of savings approved for delivery as part of previous years' budgets.



4. Main report

Current context

- 4.1 The Council continues to operate and deliver services in a challenging context, with the combined influences of demographic-led demand, inflationary pressures and legislative reform impacting on its budget, all against a backdrop of reducing core grant funding.
- 4.2 On 4 September 2019, the UK Government announced one-year “spending plans” which confirmed the provision of £1.2bn of additional funding to Scotland in 2020/21. Within this, the UK Government made a significant commitment to health care spending which it is anticipated the Scottish Government will mirror. This is expected to account for a significant portion of the additional resources meaning that the Scottish Government will need to make decisions about the relative prioritisation of the remaining resources as it has in previous years.
- 4.3 The Scottish Draft Budget Announcement is not expected before 12 December 2019. The uncertainty around Brexit and the potential for a further UK election could have implications for the financial planning assumptions of the UK Government and the Scottish Government. As such, the figures set out in this report will only be indicative.
- 4.4 If previous years’ timings are retained, the Council would then expect to receive its indicative grant funding allocation for 2020/21 around a week later.

Medium-term review of financial framework assumptions

- 4.5 The principal expenditure and income factors contained within the Council’s financial framework are subject to at-least six-monthly review. A detailed commentary on the outcome of this latest review is included as Appendix 1 and points to a continuing need to deliver significant savings (summarised in Paragraph 4.14 below) for expenditure and available income to be maintained in balance.

Current year budget monitoring update

- 4.6 At the Finance and Resources Committee’s meeting on 15 August 2019, members considered an in-year update on the Council’s revenue budget. Taking account of anticipated savings delivery and management of service pressures, a projected year-end overspend of £5.4m was set out, expressed net of a one-off contribution of £6m from the Council Priorities Fund. Whilst approving the report’s recommendations, in view of the continuing unbalanced position, it was noted that a further progress update would be provided to this meeting.

Service projections

- 4.7 While work involving Finance, Executive Directors and Heads of Service geared towards mitigating this level of net pressure has continued, the risk-adjusted forecast service outturn remains essentially unchanged. This position reflects the net impact of an improved delivery assessment across service-specific proposals, offset by an increased anticipated shortfall against Council-wide efficiency savings and greater

underlying service pressures within, in particular, the Schools and Lifelong Learning service. The year-end projection also continues to assume attainment of a balanced position for the EIJB, significant further required actions for which remain to be implemented.

Non-Directorate budgets

- 4.8 The Council's Treasury team is reviewing the loans fund, including debt restructuring and assessments of asset lives, to determine whether further savings in this area can be achieved, with a response from its treasury advisors anticipated shortly. While this offers the potential for in-year savings beyond those currently being assumed, any reprofiling will require to form part of a sustainable strategy agreed with the external auditor (potentially involving a need for additional revenue and/or capital expenditure, consistent with the assumed asset lives) and will not avoid the need for much more difficult decisions about the Council's priority outcomes in the current and future years.
- 4.9 Members may be aware that the Scottish Government operates a Business Rates Incentivisation Scheme (BRIS), under which local authorities retain 50% of the additional income generated in excess of targets set with reference to past increases in their local non-domestic rates tax bases. On 1 October 2019, the Scottish Government confirmed payments in respect of the 2017/18 scheme year and Edinburgh was one of ten authorities to receive an incentivisation payment. This one-off payment of £0.387m is therefore available to offset wider pressures in the current year.
- 4.10 At the Committee's meeting on 15 August 2019, members received the annual report on the final year of operation of the Carbon Reduction Commitment (CRC) energy efficiency scheme. As set out in that report, ending of the CRC will be accompanied by a corresponding increase in Climate Change Levy (CCL) payments. There will, however, be a reduction of £0.5m in the Council's combined CCL and CRC liability in 2019/20, with this sum similarly available to offset in-year pressures.
- 4.11 Taking into account the BRIS- and CRC-related savings above, the projected Council-wide overspend in 2019/20 has reduced by around £0.9m to £4.5m. In view of the continuing unbalanced position, however, Executive Directors and their Heads of Service have been tasked by the Chief Executive with continuing to examine all opportunities to control and contain expenditure within budgeted levels in 2019/20 and to identify recurring measures such that the underlying structural deficit (in turn linked to service pressures and savings delivery shortfalls) is addressed in full.

Implications of current year's projection for budget framework, 2020/21 – 2022/23

- 4.12 Given that the additional in-year mitigating measures identified above are assumed to be non-recurring, at this stage the budget framework incorporates an assumed requirement in 2020/21 to identify an additional £11.4m of recurring savings measures. This requirement could increase as some of the measures being taken to contain expenditure are viewed as one-off.

4.13 Recent years' budget processes have seen a range of pressures emerge primarily due to legislative reform, including the introduction of the Apprenticeship Levy in April 2017 and increases in teachers' superannuation contribution rates in September 2019. In order to provide an element of contingency against the emergence of similar pressures in the future, it is proposed to introduce sums of £3m in the first two years of the framework, with £5m included in year three (2022/23) to cover risks of movement in key budget assumptions over this longer timeframe.

Summarised position

4.14 On the basis of the assumptions outlined in Appendix 1 and the need for further savings to be identified both to address, on a recurring basis, the underlying current-year shortfall and to provide an element of contingency against future-year risks, the incremental savings requirements for the next three years are as shown below. Given recent years' trends in actual savings delivery, however, it is likely that proposals to a higher value than those shown will be required, with the quantum of these additional proposals informed by an initial assessment of the options brought forward.

	2020/21 £m	2021/22 £m	2022/23 £m	Total £m
Estimated incremental in-year savings requirement as reported to Finance and Resources Committee, March 2019	29.6	26.2	28.5	84.3
Contingency for investment/pressures	3.0	3.0	5.0	11.0
Estimated incremental in-year savings requirement, including contingency	32.6	29.2	33.5	95.3
Additional sustainable savings required to offset projected 2019/20 deficit	11.4	-	-	11.4
Revised estimated incremental in-year savings requirement	44.0	29.2	33.5	106.7
Savings agreed as part of Change Strategy, 2019-2023	(7.0)	(4.7)	(5.3)	(17.0)
Continuation of RPI+2% increase for discretionary fees and charges	(1.0)	(1.0)	(1.0)	(3.0)
Residual Incremental Gap	36.0	23.5	27.2	86.7

4.15 As noted in the Capital Strategy report elsewhere on today's agenda, delivery of a range of capital priorities, including release of the Council's contribution to the Wave 4 schools programme included within the above projections, depends upon the attainment of a balanced revenue budget over the medium to long-term. Several further capital priorities, including a Gaelic Medium Secondary Education

establishment, City Centre Transformation and the City Mobility Strategy, will be subject to separate consideration.

Other unfunded revenue budget priorities

- 4.16 The Executive Director of Communities and Families and the Edinburgh Health and Social Care Partnership are looking to replace SWIFT/AIS with a new case management solution that will primarily be used across the Children's Services, Adult Services and Community Justice Teams. A final business case is being prepared, including detailed options and costs, for consideration by the Corporate Leadership Team in mid to late October. An indicative implementation cost of £8m, split over two years 2020/21 and 2021/22, has been identified, with estimated on-going annual support costs of £0.5m.

Service prioritisation

- 4.17 Since 2012/13, the Council has delivered over £300m of savings, equivalent to almost a third of its budget, through redesigning services, transforming procurement practices, increasing income and sharing functions internally and with partner organisations. After successive years' savings of this magnitude, however, there is a limit to the level of further savings that can be delivered without impacting on frontline services.
- 4.18 The resultant need for councils to set clear priorities, identify associated desired outcomes and invest their resources accordingly, all whilst working effectively with partners, was highlighted in Audit Scotland's recent [Challenges and Performance](#) national report. This prioritisation will need to be achieved through targeting, reducing or stopping outright some existing services. Such is the scale of the challenge, however, that it is likely that all service areas will need to contribute and, in that sense, for protection to be relative rather than absolute in addressing, on a sustainable basis, the unaffordability of the Council's current activity.

Continuing the strategic approach to budget setting through the Change Strategy

- 4.19 The Change Strategy continues to provide a framework for significant change over a three-year period while recognising the essential requirement for the organisation to balance its budget each year. The core message of the overarching Change Strategy has been:

"A thriving and united city in which all residents can share in its success."

Edinburgh is one of the best cities in the world in which to live, work and study. We live in a city full of vibrancy and opportunity and, as a council, we are working hard to ensure that all residents can share in its success. We will keep investing in the things that support and sustain growth while confronting the challenges that come with it.

- 4.20 Adoption of a longer-term strategy is vital to delivering on key Council priorities and maintaining investment in the right areas. Continuing to develop a longer-term strategy allows dependencies across the organisation to be understood and planned for and communicated pro-actively to key stakeholders and citizens.

- 4.21 The strategy and specific proposals for change are continuing to evolve as they build on feedback from staff and citizens and consider key targets and goals the organisation is striving to achieve. Poverty, Sustainability and Well-being are emerging as the priority policies which need to shape thinking around the Council budget-setting process moving forward.
- 4.22 The Council is required by legislation to end child poverty by 2030 and is working to make changes through the Poverty Commission and the Council Child poverty unit. The Climate Emergency has also led to the Council setting a target to be carbon-neutral by 2030 within a legal context for Scotland being carbon-neutral by 2045. Poverty and sustainability are also core themes of the 52 Council Commitments and are reflected in much of the work of this organisation. Explicitly adopting these policy priorities as a focus for the development of the Council's budget is a helpful development of the change strategy.
- 4.23 In practice this will mean resources, investment and service redesign proposals will be focused on outcomes which deliver to these priorities. It does not mean that any service is exempt from seeking efficiencies and considering ways in which it can improve. This will also include more difficult consideration of whether and how to adjust provision in areas that may not directly impact on these outcomes while being cognisant of the Council's statutory responsibilities.

Key messages

- 4.24 Communications around the budget will be clear that:
- 'The Council budget will seek to improve the well-being of all citizens and ensure Edinburgh is a thriving, fair and sustainable city by prioritising decisions that have a positive impact on poverty and sustainability.'*
- 4.25 The budget will also continue to protect and evolve services connected to these policy priorities, while focusing on delivery of high-quality core services in the most efficient way possible.
- 4.26 The context continues to be challenging for local authorities across Scotland and it will require difficult decisions to be taken where services do not meet the policy priorities and or ambitious targets set out by this organisation that best meet the needs of Edinburgh citizens.

Summary of known engagement responses

- 4.27 Feedback from the first year of the Change Strategy indicated that all stakeholders wanted to be more involved in suggesting changes and in the development of future proposals. Trade Unions asked for a commitment around staff engagement much earlier in the process.
- 4.28 To respond to this feedback, the Council has made a significant commitment to engaging with colleagues on its budget and to ensure that more stakeholders feel informed and able to influence change initiatives – an area for improvement also highlighted by the 2018 Colleague Survey. As a result, citizen and colleague engagement was launched earlier this year in July to bring feedback into the change

process earlier in the political decision-making process. This engagement has focused on asking, “How would you spend £1 billion on Council services? What Council services would you prioritise where you live and citywide?” to inform both the spending and savings prioritisation within the budget process.

- 4.29 The Council intends to conduct several resident focus sessions and staff sessions up to the end of October 2019. It is intended to engage with approximately 500 colleagues and residents over this period ensuring the sessions are representative of our communities. The final results of the engagement process will be reported to Finance and Resources Committee on 6 December 2019.
- 4.30 So far, the Council has conducted 36 workshops and focus groups, involving residents and colleagues, in in-depth discussions about their ideas and priorities. Resident sessions have included activities at schools and sheltered housing schemes to include those least likely to have been involved in budget discussions in previous years. Colleague sessions have been led by Heads of Service talking to their own teams and facilitated by Strategy and Communications.
- 4.31 Detailed feedback from each session is being communicated to Heads of Service who are considering it when developing and evolving proposals for political consideration over the coming months. This way stakeholders will see they have contributed to the process much earlier than in previous years, which alongside the previous engagement should all build a narrative for elected members to develop and steer as appropriate.

Outline of when and how the Council could further consult/engage

- 4.32 The Council has specific legal commitments in respect of community empowerment and public consultation which govern when the Council must consult with citizens. Consultation on the Council budget-setting process is not a statutory requirement. However, this Council has for several years endeavoured to involve citizens in decisions about its spending priorities and as far as possible, to consult on savings proposals.
- 4.33 The national budget-setting process has however, over recent years, regularly been delayed and reduced the Council’s capacity to give citizens a reasonable opportunity to consider proposals put before them. In effect the Council has been unable to consult to good practice standards and has instead provided opportunities for citizens to engage. Unless there is sufficient time to consult to good practice standards (12 weeks) budget proposals that have a material impact on citizens’ lives would require a subsequent dedicated consultation.
- 4.34 The Council engagement process for the last three years has also sought citizens’ views about their long-term spending priorities to inform the Council’s budget-setting. Given that this is the case, and in light of the challenging deadlines for budget-setting described in this report, elected members could reasonably choose not to have a second engagement process on the specific savings proposals. To reiterate, where proposals were likely to have a material impact on citizens’ lives, a subsequent process would still be necessary.

4.35 In summary, good consultation standards recommend that consultation takes place over a period of 12 weeks. It will be impossible to fulfil these standards and to meaningfully consult in the timeframe laid out. At the same time, the Council will receive a report detailing colleague and citizen input on council spending priorities which have been undertaken over the last three months. The Council will also conduct Integrated Impact Assessments for each relevant savings proposal. It is therefore recommended that unless the expected timeframes change, the Council relies on this material to make its budget decisions on the understanding that issues with a material impact will be addressed in subsequent consultations.

Outline of key dates to February 2020 budget-setting and the overall approach which will be taken to make the decisions required to set the budget

- 4.36 Building from the engagement conducted from August to October 2019, specific proposals will be developed on which services to prioritise for change and which to protect. During the period from this report to the beginning of December proposals will be detailed so that the scalability, phasing and key stakeholders can be understood.
- 4.37 Once the Scottish Local Government Finance settlement has been outlined on or around 12 December 2019, a decision will be made on which proposals would form the basis on any engagement prior to budget-setting in February 2020.
- 4.38 This approach is recommended due to the level of political uncertainty nationally; knowing the detail of the Scottish Local Government Finance settlement will allow for the Council to plan how and which changes will need to happen in what timeframe. This will allow the organisation to react appropriately to the budget consequences set out in this announcement.

5. Next Steps

- 5.1 Specific options for change to meet the remaining three-year savings gap will be identified and developed for consideration by Committee following the Scottish Government spending announcement. These will include the integrated impact assessments.
- 5.2 Given the continuing unbalanced position in respect of the current year's revenue budget and the need to develop, as a matter of urgency, corresponding mitigating actions to bring expenditure back towards approved levels, a further update will be provided to the Committee's meeting on 6 December 2019.

6. Financial impact

- 6.1 The report re-emphasises the importance of proactive management of service pressures and delivery of approved savings. In view of the latest current-year assessment, however, further measures will require to be implemented during the year if the integrity of the framework is to be maintained.
- 6.2 The Council is required by legislation to set Council Tax rates for the following financial year by 11 March. Implicit within this requirement is agreement of specific

expenditure and savings plans, such that combined grant funding, Council Tax and fees and charges income meet expected expenditure obligations. After successive years' expenditure reductions, this is likely to require increasingly-difficult decisions on service prioritisation.

7. Stakeholder/Community Impact

- 7.1 Engagement has taken place with staff and citizens prior to the development of the content of this report and the outcome of the engagement will be reported to Finance and Resources Committee in December and used in the development of proposals for consideration by the Committee in January.
- 7.2 All budget proposals are assessed as to whether they will impact citizens with protected characteristics and require an integrated impact assessment. Feedback received as part of the budget engagement and relevant subject area consultations also allows for equalities-related impacts to be highlighted by service users and taken on board in the implementation of proposals.

8. Background reading/external references

- 8.1 [Performance Report](#), Edinburgh Integration Joint Board, 20 August 2019
 - 8.2 [Revenue Monitoring 2019/20 – Period Three Report](#), Finance and Resources Committee, 15 August 2019
 - 8.3 [Carbon Reduction Commitment \(CRC\) Annual Report](#), Finance and Resources Committee, 15 August 2019
 - 8.4 [Finance Update](#), Edinburgh Integration Joint Board, 21 June 2019
 - 8.5 [Revenue Budget Framework 2019/24 – progress update](#), Finance and Resources Committee, 23 May 2019
 - 8.6 [2019/20 Financial Plan](#), Edinburgh Integration Joint Board, 29 March 2019
 - 8.7 [Performance Report](#), Edinburgh Integration Joint Board, 29 March 2019
 - 8.8 [Revenue Budget Framework 2019/23 – Progress Update](#), Finance and Resources Committee, 7 March 2019
 - 8.9 [Coalition Budget Motion](#), City of Edinburgh Council, 21 February 2019
 - 8.10 [Feedback on the Change Strategy and Budget Proposals, 2018 and 2019](#), The City of Edinburgh Council, 21 February 2019
 - 8.11 [Council Change Strategy: Planning for Change and Delivering Services 2019-2023](#), Finance and Resources Committee, 1 February 2019
 - 8.12 [Council Change Strategy – Risks and Reserves 2019-2023](#), Finance and Resources Committee, 1 February 2019
- [Local Government in Scotland: Challenges and Performance 2019](#), Accounts Commission

9. Appendices

Appendix One – Review of principal income and expenditure assumptions within the budget framework

Appendix Two – Previously-approved savings for delivery in 2020/21 to 2022/23

Review of principal income and expenditure assumptions within the budget framework

Expenditure factors

Demographic provision

1. Increases in demographic-related demand impact upon the Council's need to spend in a number of ways. Within Communities and Families, increasing school pupil rolls¹, alongside growth in the number of pupils with additional support needs or young people who are at risk, place additional calls on the budget framework. Within the Place Directorate, additional annual funding is made available to reflect growth in overall property numbers and the consequent increases in waste collection, disposal and recycling costs. A small incremental annual sum is also provided to the Resources Directorate to recognise the impact of increasing school rolls on the cost of school meal provision. The estimates for the financial impact of these factors are subject to on-going review based on available population projections, needs assessment indicators and other relevant factors.

Pupil rolls

2. The period three in-year revenue monitoring report considered by the Committee on 15 August 2019 proposed allocating £2m, on a recurring basis, from the inflation-linked provisions contained within the budget framework to address the current level of demographic pressures affecting the Communities and Families Directorate. Extrapolation of the likely costs resulting from projected increases in pupil rolls over the period to 2022/23 suggests a continuing need for additional funding over and above that previously provided. While the precise level of provision required will be reviewed in light of updated pupil roll projections due to be published in December 2019, at this stage an additional annual £1m allocation is proposed, increasing incremental provision over the period from 2020/21 to 2022/23 to £3.862m/£3.548m/ £3.548m respectively. As this sum is being earmarked from within an existing inflation-linked provision, however, there is no corresponding impact on the incremental or cumulative Council-wide savings requirement.

Health and Social Care

3. In recent years, the Local Government Finance Settlement has provided significant additional funding for Health and Social Care services, reflecting a combination of increasing service demand and delivery of related policy commitments, including on-going financial support for payment of the Living Wage by both voluntary and private adult care providers and expansion of

¹ Actual pupil roll numbers for 2018/19 and projected rolls for 2019/20 indicate a combined overall requirement for 25 additional primary classes since the 2017/18 academic year. Over the same period, the secondary school pupil roll has increased by over 1,000. Looking forward, while primary pupil rolls are expected to grow more modestly, secondary rolls are projected to increase by almost 22% (some 4,300 pupils) between 2019 and 2025.

free personal care to include those under the age of 65. On this basis, the budget framework now assumes that this policy of the provision of additional Scottish Government funding to reflect increasing underlying service demand will continue. This is consistent with the adjusted grant funding projections currently included within the framework and, as such, there is again no impact on the incremental annual Council-wide savings requirement.

4. The most recent performance update to the Edinburgh Integration Joint Board (EIJB) on 20 August 2019 reported the position at June 2019 and continued to evidence improvement across a number of areas as shown below:

	September 2018	June 2019
Total individuals waiting for assessment	1,749	1,450
% of assessments outwith standard priority timescales (14 days Priority A, 28 days Priority B)	52.3%	44.8%
Delayed discharge total	271	162
Waiting in community for a package of care	720	326
Individuals waiting in hospital for a package of care	129	38

5. The improvements are related to the delivery of significant increases in care at home capacity through the Sustainable Community Support (SCS) Programme. A key objective of SCS was delivery of a reduction in hospital delayed discharges. The Information Services Division of NHS Scotland estimates that the cost of delayed discharges to NHS Scotland in 2017/18 was £122m with an estimated average bed day cost of £248. On this basis, the estimated value to NHS Lothian of a sustained improvement of 109 in delayed discharge numbers would be c. £10m.
6. NHS Lothian committed £4m to support the Sustainable Community Support Programme and the EIJB Chief Officer and Chief Financial Officer are in discussion with NHS Lothian to seek recurring investment to support sustained performance improvement.
7. Active monitoring of these key indicators will continue. It is proposed, however, that release of the £2.5m Council contribution approved as part of the Council's 2019/20 budget now be confirmed as a recurring contribution within the medium-term budget framework for 2020/21 to 2022/23 in support of sustained performance improvement.
8. While continuing to provide an additional £160 million of health and social care investment across Scotland, as part of the Stage One Parliamentary

Debate on the 2019/20 Scottish Draft Budget, the Cabinet Secretary for Finance, Economy and Fair Work introduced flexibilities allowing local authorities to apply savings targets of up to 2.2% against their baseline IJB allocations (equivalent to £50 million across all local authorities), prior to passing on this additional funding, to help them address wider savings requirements. Although this available flexibility was not reflected in the Council's 2019/20 offer to the EIJB, continuation of the Scottish Government's broad policy would provide an opportunity to apply an annual savings target of up to £4.8m based on current service expenditure, prior to passing on relevant additional monies included within the Local Government Finance Settlement.

Employee pay awards

9. Previous reports have highlighted the sensitivity of the Council's budget to changes in the level of employee pay award; each 1% increase adds £5.7m to its overall expenditure. Following the agreement of three-year pay settlements for both teaching and non-teaching staff earlier in 2019, the budget framework reflects the confirmed uplift of 3% for 2020/21. At this stage, incremental 3% annual uplifts are assumed thereafter, with the appropriateness of this assumption kept under review in light of wider economic forecasts and agreements for comparable staff groups.

Other inflationary uplifts

10. While the pay award is the most material in terms of value, a number of other aspects of the Council's expenditure are also subject to general or specific inflation-linked indices, including many higher-value contracts, non-domestic rates and energy. Incremental annual provision of 3% has been made across all years of the framework for these costs, although this assumption will be regularly reviewed, taking due account of general trends and forecasts for relevant indices.

Income factors – Government Grant Funding

11. Funding from General Revenue Grant (including Non-Domestic Rates) and Council Tax accounts for around 90% of the Council's overall income and thus even relatively small changes in these factors have a material impact on the overall savings requirement. By means of illustration, every 1% increase in Council Tax generates £2.9m of income, with every 1% change in grant funding equating to a movement of £7m.
12. As part of the changes introduced as part of the Stage One Parliamentary Debate on the 2019/20 Scottish Draft Budget, the Cabinet Secretary intimated an intention to return to three-year revenue and capital settlements for Local Government with effect from 2020/21, a commitment reiterated within the Scottish Government's [Medium-Term Financial Strategy](#) published in May 2019. There are, however, a number of potential dependencies to achieving this aim.

13. The UK Government issued a one-year “spending plans” announcement on 4 September 2019, confirming the provision of some £1.2bn of additional funding for Scotland in 2020/21 (equating to year-on-year real-terms growth of 2.1%). In the absence of supporting information on economic and fiscal forecasts expected to be published later in the autumn, however, insufficient clarity has been provided at this stage to inform the more detailed budget projections required to set a Scottish Budget. This issue of timing aside, under the terms of devolution, the Scottish Government is not bound to allocate funding to those some areas that triggered the Barnett Consequentials. It is likely, however, that the Scottish Government will at least match, on a pro-rated basis, the level of increased health spend in England and thus allocate a significant element of the above-mentioned funding accordingly.
14. Given the dependency on the timing of the UK Budget, at this stage no specific date has been set for the Scottish Draft Budget announcement. It is the Scottish Government’s intention, however, to issue a draft Scottish Budget for 2020/21 by Thursday, 12 December 2019, with council-specific figures then released early the following week. If a three-year settlement is issued, later years’ revenue figures will be indicative only and not confirmed until after the Council has set its budget in February.
15. The amount of funding included within the Local Government Finance Settlement depends upon the complex interaction of the spending, taxation policies and relative priorities of both the UK and Scottish Governments. This funding quantum is then distributed amongst local authorities according to a complex needs assessment process, with the floor calculation smoothing out the impact of significant year-on-year changes. While, as in recent years, it is likely that the Council will benefit from the receipt of additional funding through the operation of the floor, by extension this means that its change in grant settlement will be worse than the average for Scotland as a whole. In the absence of confirmed figures beyond 2019/20, current grant funding assumptions are based on continuation of settlements at the actual level received in 2019/20 i.e. a reduction in core funding of 0.7%, including the element of additional monies provided for Health and Social Care. As with all other forecasts, members will be kept apprised of any material changes as additional details emerge although it is likely, as in previous years, that the final grant allocation for 2020/21 will only be confirmed in late January 2020.

Council Tax

16. Between 1 April 2008 and 31 March 2017, Council Tax levels in Scotland were frozen at 2007/08 rates, with the Scottish Government providing compensating grant funding to councils to offset the income foregone, based on an assumed 3% annual increase. Since April 2017, however, the amount of income available through Council Tax has increased through a combination

of revised multipliers for higher-banded properties and an ending of the freeze policy. In 2017/18 and 2018/19, a maximum increase of 3% was permissible to secure, in full, the grant funding allocations set out within the Local Government Finance Settlement. The budget framework currently assumes continuation of 3% annual increases in Council Tax rates in the city.

17. Following the Stage One 2019/20 Scottish Draft Budget deliberations, however, local authorities were permitted to increase Council Tax levels by up to 3% in real terms i.e. 4.79% in cash terms. While, as with the IJB flexibilities noted above, this option was not adopted by the Council in 2019/20, assuming continuation of the policy and current inflation rates, around £2.9m would be raised from each additional 1% increase and an additional £5.1m from applying the maximum-permissible 4.79% increase in 2020/21. Applying an additional 1% for the three successive years (i.e. annual increases of 4%), incorporating the impact of compounding, would raise about £9.0m; an additional 1.79% (i.e. 4.79% in total) would raise about £16.2m over the same period.

Discretionary fees and charges

18. In February 2016, Council approved a proposal to supplement the existing policy of increasing most discretionary fees and charges by the relevant rate of inflation with an “RPI +2%” policy, the effect of which was to generate an additional £1m of income in each of the years of the budget framework from 2016/17 to 2019/20 inclusive. Based on current inflation rates, this equates to annual increases of 5% across the range of fees and charges within scope. Given that the funding constraints under which the revised policy was introduced remain in place, current planning assumptions are for this policy to be continued for the next three years. In light of the more explicit targeting of the budget to address issues of poverty and sustainability, however, there may be a need to apply these increases more strategically, reducing the level of increase or exempting entirely some services and applying higher increases in others if a similar level of income is to be generated.

Transient Visitor Levy (TVL) and Workplace Parking Levy (WPL)

19. As part of the Stage One 2019/20 Draft Scottish Budget deliberations, the Scottish Government agreed to legislate powers that would enable local authorities to introduce a TVL or tourist tax. The Council will implement a TVL in Edinburgh once the detail of the legislation is known and relevant powers are in place.
20. The Council has also continued to support COSLA in seeking a permissive legal power within the Transport Bill for Scottish councils to implement a WPL, if appropriate to local circumstances. The Bill is currently making its way through parliament.

21. In each case, the associated income is assumed not to be available until, at the earliest, the later years of the framework. In addition, this funding is assumed to support new expenditure and, as such, have no net impact on the overall savings requirement over the period of the framework.

European Union-related funding

22. The Council and Strategic Planning Partnership delivering the European Social Fund (ESF) programme on behalf of the city operate core employability projects and social inclusion projects. These projects are currently worth over £1.5 million a year and have an annual impact of £3.75 million (including match funding) supporting vulnerable people to find employability, employment and training skills within the city's economy.
23. At this stage, it is anticipated that funding for previously-approved projects will, irrespective of the UK's precise means of exiting the European Union, be secured up until December 2020. This includes sums currently assessed as "under interruption" in light of the recent European Commission audit. Looking forward, a steering group has also been established by the Scottish Government to oversee planning for the UK-wide Shared Prosperity Fund planned to replace the ESF in due course.

Previously-approved savings

24. In February 2019, Council approved a one-year revenue budget for 2019/20. The four-year budget framework that was issued for public engagement in January 2019 did, however, include a number of further savings covering the remaining three years. These later-year savings primarily reflect the full-year effect or further incremental implementation of proposals approved in 2019/20, along with anticipated savings in loans charge expenditure. The framework also included, however, a number of savings in areas either where significant pressures linked to partial delivery of savings are apparent in the current year (such as Property and Facilities Management, Fleet Management and the 1.55% annual Council-wide efficiency target) or where subsequent Committee or Council decisions have hastened a reassessment of their deliverability or appropriateness (such as Communities and Families third party grants and payments for service to Edinburgh Leisure).
25. At this stage, given the trend in recent years of decreasing actual savings delivery, only those savings in the former category (shown in Appendix 2) are assumed to be available to offset incremental savings requirements. Estimates in respect of the latter category will form part of the risk-adjusted options brought forward to address the remaining savings requirement in 2020/21 and subsequent years.

Key assumptions as reflected in budget framework – summary

Factor	Assumed percentage change		
	2020/21	2021/22	2022/23
<i>Pay awards (all staff groups)</i>	3%	3%	3%
<i>Contract and other inflation</i>	3%	3%	3%
<i>Council Tax</i>	3%	3%	3%
<i>Government Grant funding</i>	0.7% year-on-year reduction, including additional monies for Health and Social Care	0.7% year-on-year reduction, including additional monies for Health and Social Care	0.7% year-on-year reduction, including additional monies for Health and Social Care
<i>Discretionary fees and charges</i>	RPI+2%	RPI+2%	RPI+2%

	2020/21 £m	2021/22 £m	2022/23 £m
Statutory consents	(0.035)	(0.040)	(0.025)
Parks and green spaces	-	(0.100)	-
Advertising income	(0.300)	-	-
Communities and Families management	(0.050)	-	-
Economic Development	(1.500)	-	-
Heritage language	(0.021)	-	-
Borrowing costs	(4.000)	(4.000)	(4.000)
Procurement	(0.100)	(0.100)	(0.100)
Depots and yards	-	(0.500)	-
New ways of working – public safety and business continuity	(0.130)	-	-
Area based regeneration	(0.500)	-	-
Parking action plan phase 2	(0.118)	(0.520)	(0.625)
Marketing Edinburgh	(0.490)	-	-
Transport for Edinburgh	(0.400)	-	-
Scottish Government framework for electricity and gas	(0.060)	-	-
Joint waste	(0.325)	-	-
Culture services review	(0.150)	-	(0.350)
Other efficiencies – ICT / CGI partnership	(0.150)	-	-
Digital delivery	(0.250)	(0.250)	(0.190)
Total gross savings	(8.579)	(5.510)	(5.290)
Less adjustment for one-off savings in framework			
EDI dividend	1.047	-	-
Property maintenance and additional investment	-	0.850	-
Revenue and capital (road maintenance and school adaptations)	0.500	-	-
Total	(7.032)	(4.660)	(5.290)